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Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ARAE-00 /092 W
---------- 069868
P 281418Z APR 76
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC PRIORITY 2986

C O N F I D E N T I A L CARACAS 4815

E.O. 11652: GDS
TAGS: ENRG, EINV, VE
SUBJ: ARCO WILL NOT SIGN TECHNICAL SERVICE AGREEMENT WITH GOV

1. BEGIN SUMMARY. ARCO HAS INFORMED EMBASSY THAT IT HAS WITHDRAWN FROM NEGOTIATIONS FOR A TECHNICAL SERVICES AGREEMENT WITH THE GOV. THE COMPANY WILL CLOSE ITS VENEZUELAN OFFICE IN ABOUT THREE WEEKS, RETAINING ONLY A LOCAL LAW FIRM TO HANDLE AFFAIRS. THE COMPANY WILL CONTINUE TO PURCHASE ITS PRESENT VOLUME OF 30,000 B/D AS LONG AS THE OIL IS COMPETITIVELY PRICED, BUT HAS NOT YET SIGNED A FORMAL OFFTAKE CONTRACT. END SUMMARY.

2. HUGH SHEFFIELD, ARCO REPRESENTATIVE IN VENEZUELA, INFORMED THE EMBASSY APRIL 28 THAT HIS COMPANY HAS FORMALLY NOTIFIED THE MINISTER OF MINES THAT IT HAS WITHDRAWN FROM NEGOTIATIONS FOR A TECHNICAL SERVICE CONTRACT. A COPY OF THIS SAME LETTER WAS ALSO GIVEN TO ITS NATIONALIZED OPERATING COMPANY, BARIVEN. SHEFFIELD STATED THAT HIS OFFICE WILL BE CLOSED AND HE WILL DEPART BY THE END OF THE THIRD WEEK IN MAY. ONE OF THE PRESENT VENEZUELAN LAW FIRMS REPRESENTING ARCO WILL BE RETAINED TO ANSWER CORRESPONDENCE. THE REGISTRATION OF SINCLAIR AND VENEZUELAN ATLANTIC REFINING COMPANY WILL BE MAINTAINED FOR TAX AND OTHER LEGAL REASONS. ARCO WILL CONTINUE TO BUY 30,000 B/ OF CRUDE OIL, ACCORDING TO SHEFFIELD, AS LONG AS THE VENEZUELAN PRICE IS COMPETITIVE. HOWEVER,
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THE COMPANY HAS NO FORMAL OFFTAKE CONTRACT WITH PETROVEN AND COULD

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REDUCE OR CEASE TO PURCHASE CRUDE WITHOUT GOING THROUGH THE FORMAL NOTIFICATION AND PHASING DOWN PROCEDURE CALLED FOR IN THE CONTRACTS.

3. SHEFFIELD SAID THAT THE REASONS FOR WITHDRAWING CITED BY ARCO IN THE LETTER TO THE MINES MINISTER WERE THAT THE NEGOTIATING PROCESS WAS TOO DRAWN OUT, WHAT THE COMPANY WAS BEING ASKED TO PROVIDE IN THE WAY OF TECHNICAL SERVICES WAS TOO EXPENSIVE RELATIVE TO WHAT BARIVEN WAS WILLING TO REIMBURSE (ONLY THE SALARIES OF SHEFFIELD AND A REFINERY EXPERT); AND, FINALLY, THE PROFFERED TECHNICAL SERVICE FEE OF EIGHT CENTS PER BARREL WAS INSUFFICIENT TO JUSTIFY ARCO PROVIDING VALUABLE TECHNICAL SERVICES.

4. ASKED WHAT TRIGGERED ARCO TO WITHDRAW AT THIS TIME, SHEFFIELD REPLIED THAT HE HAD ACTUALLY NEGOTIATED AN ACCEPTABLE TECHNICAL SERVICE CONTRACT WITH THE DIRECTOR OF HYDROCARBONS, AREVALO REYES. HOWEVER, WHEN REYES SENT THE DRAFT CONTRACT TO BARIVEN FOR APPROVAL, THE OPERATING COMPANY CHANGED IT SO SUBSTANTIALLY THAT ARCO CONSIDERED NEGOTIATIONS WOULD HAVE TO BE RECOMMENCED FROM THE ORIGINAL STARTING POINT. THIS, COMBINED WITH THE COMPTROLLER GENERAL'S BACK TAX CLAIM (EQUIVALENT TO 20 PERCENT OF ARCO'S TOTAL COMPENSATION) MOTIVATED A DECISION "AT THE HIGHEST LEVEL" IN THE COMPANY HOME OFFICE TO PULL OUT.

5. COMMENT - WITH THE DEPARTURE OF ARCO, THE OPERATING COMPANY BARIVEN BECOMES A PRIME CANDIDATE AS THE FIRST OF THE FOURTEEN TO BE MERGED. BARIVEN COULD BE INCORPORATED INTO ONE OF THE LARGER OPERATORS AND THE ACT ANNOUNCED AS THE FIRST STEP IN THE RATIONALIZATION PROCESS ENVISIONED FOR THE INDUSTRY. ON THE OTHER HAND, THE VACUUM CREATED BY THE DEPARTURE OF ARCO COULD PROVIDE PETROVEN THE OPPORTUNITY TO BRING IN OTHER TECHNOLOGY ON AN EXPERIMENTAL BASIS. BARIVEN IS SMALL ENOUGH TO JUSTIFY SUCH AN EXPERIMENT - THE COMPANY PRODUCED ONLY 18,000 B/D IN MARCH, AND THIS VOLUME, IF MISMANAGED, WOULD HARDLY JEOPARDIZE THE OVERALL INDUSTRY SITUATION. END COMMENT.

6. SEPTEL FOLLOWS ON STATUS OF ARCO COMPENSATION PAYMENTS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, NATIONALIZATION, COMPENSATION, TECHNICAL ASSISTANCE CONTRACTS, NEGOTIATIONS, TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 28 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976CARACA04815
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760163-0350
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760412/aaaaajkp.tel
Line Count: 98
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 22 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUL 2004 by BoyleJA>; APPROVED <01 NOV 2004 by ShawDG>
Review Markings:

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US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ARCO WILL NOT SIGN TECHNICAL SERVICE AGREEMENT WITH GOV
TAGS: ENRG, EINV, VE, ARCO
To: STATE
Type: TE
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